



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT  
DIVISION

FEB 9 1976

Mr. Joseph P. Yeldell  
Director, Department of Human Resources  
District of Columbia Government

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Dear Mr. Yeldell:

Since February 1975, the General Accounting Office (GAO) has been assisting your staff in making improvements to your supply management program. This letter discusses problems GAO and your staff observed, and corrective actions taken or agreed upon by your staff.

Your department is one of four selected for our study to determine (1) if the District would benefit from a more centrally managed supply system, and (2) how effectively and economically materials are provided by individual departments. Although this letter deals principally with the second objective, discussed below are a few observations on the status of District efforts to consolidate and centralize its supply management operations.

CENTRALIZING CITY-WIDE SUPPLY MANAGEMENT

GAO and other groups since 1912 have recommended that the District establish city-wide inventory control and centralize its supply management staff. The Nelsen Commission<sup>1/</sup> in 1972 was the most recent group to make such recommendations. The Commission estimated that consolidation and centralization of the District procurement and supply management system could save over \$23 million, with annual recurring savings of over \$12 million.

The District's supply system is still organizationally decentralized. Each department has its own supply management procedures.

<sup>1/</sup>"Report on the Procurement and Supply System for the Government of the District of Columbia," issued August 1972.

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Before the benefits of centralization can be realized, we believe, each department must keep current, complete and accurate records showing inventory balances and usage data for each item in stock. Uniform criteria and procedures are also needed to, for example, identify what and how much should be stocked to meet operating needs.

We will discuss the centralization question further in a later report. Problems within your authority to correct and monitor to assure they do not recur, are discussed next.

#### DHR SUPPLY MANAGEMENT OPERATIONS

Supply management's objectives are to (1) provide materials to operating organizations when needed, (2) limit investment in inventory, and (3) identify and quickly dispose of stocks exceeding expected needs. DHR's supply management system was not economically and effectively meeting these objectives.

#### Stock levels askew primarily due to computer problems

Issues from stock, stock levels, reorder points and order quantities were automatically recorded and calculated by computer. Reports that showed the status of individual items in stock were routinely provided to supply personnel for review. These reports generally provided the following information: catalog number; description of the item; and, quantities on order and back ordered. Supply personnel were also given reports which told them when and how much to order.

However, reports, prepared between January and April 1975, indicated the following:

1. some items, including drugs, were either out of stock or sufficient quantities were not being ordered to meet estimated supply levels;
2. orders were placed for some items in excess of estimated required supply levels; and,
3. in other cases, there was more stock on-hand than could conceivably be used in, for example, five years.

DHR supply officials investigated the causes for and extent of these conditions.

In most cases, they found that information--used to establish stock levels and order sizes--was unreliable, contributing to the existence of any one of the conditions described. They conducted physical inventories, reconstructed supply transactions, and

recomputed stock levels for the majority of items in stock.

DHR officials told us that the primary reason erroneous information was being reported, was due to computer program and operator errors. For example, the computer operator did not use the most recent transaction file to update inventory balances, to recompute stock levels, or to establish when and how much to order. They also found that although orders were often placed for items in short-supply, no one followed-up with vendors to assure delivery schedules were met.

DHR officials told us that computer program errors were corrected and procedures established to ensure that sufficient quantities of stock are maintained to meet operating requirements, particularly drugs and medical supplies. Also, one employee was assigned to followup on orders to ensure vendors meet delivery schedules.

With respect to overstocked items, DHR supply personnel identified about 1,500 line items (valued at about \$550,000) with inventories that would take two or more years to use. On the basis of this information, undelivered purchase orders were cancelled (valued at about \$100,000), including orders for overstocked items. Steps were also taken to either transfer these items to other District departments in need, or, return them to supply sources for credit. To date, several Federal supply agencies and over 100 vendors have been contacted. Federal sources have given DHR credits, amounting to about \$60,000, for returned items. In addition, many vendors have agreed to replace overstocked items for supplies DHR needs (i.e., in short-supply).

#### Physical inventory procedures

Warehouse stocks were physically inventoried on a cyclical basis. Differences between physical counts and recorded quantities were adjusted by the supply officer. This same individual was responsible for recording stock transactions, conducting inventories and making adjustments. Sound internal management controls require separating these functions. Also, inventory adjustments were not brought to the attention of departmental officials. The Office of Municipal Audit and Inspection does not review DHR's inventory procedures, observe the taking of inventories, or verify adjustments on a routine basis, at least annually.

DHR officials agreed to establish a procedure which will require that significant inventory adjustments be reviewed and approved by higher management officials. In addition, they agreed to request the Office of Municipal Audit and Inspection (OMAI) to review inventory procedures, observe inventory-taking practices, and verify adjustments on a routine basis, at least annually. In this regard, we recommend

that the OMAI staff review computer program changes and operating procedures to verify that they are adequate.

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Copies of this report are being sent to the Mayor, City Council, Office of Budget and Management Systems, D. C. Auditor, Office of Municipal Audit and Inspection, and the Department of General Services.

Please continue to periodically advise us of progress being made. Please thank your staff for their cooperation and assistance.

Sincerely yours,

*Frank Medico*

Frank Medico  
Assistant Director